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# INVESTMENT SECTION

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## RETIREMENT SYSTEMS OF ALABAMA

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### *Investment Section*

#### Report on Investment Activity

For the Fiscal Year Ended September 30, 2008

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Dear Members,

I am pleased to present the following report on investment activity for the fiscal year ended September 30, 2008. The report provides investment highlights in general as well as specific information on the Retirement Systems' investment activity for the fiscal year.

After a good five-year run in the capital markets, fiscal year 2008 shoved the thrusters in reverse at full throttle. The housing slowdown that started in earnest a couple of years ago evolved into a crisis and then meltdown mode. Add a healthy dose of financial leverage with a plummeting asset and multi-market financial contagion is the result.

Early in the new fiscal year, the foundation was starting to crack. The write-downs the banks said were over were actually accelerating. The market was still somewhat accommodating at that point as tens of billions of dollars were raised to prop up the deteriorating balance sheets of most banks. At about the same time, the Federal Reserve had a revelation and announced they were cutting the Fed Funds rate. Throughout the spring and summer, the Fed continued to pump money into the financial system through a laundry list of "facilities." In late summer Freddie Mac and Fannie Mae were more or less bought by the government, leaving little to no value to common and preferred shareholders, with the latter surprising many investors.

Getting close to the end of the fiscal year is when the bad got ugly. Merrill Lynch is forced to sell itself to Bank of America. Lehman Brothers scrambles to find a buyer, but there are no takers. On September 15, Lehman Brothers declares bankruptcy. This is followed by the AIG debacle, and the credit markets basically freezing up. Some money market funds break the "buck," and credit spreads gap out to record wides.

At the same time, the global markets were unraveling as well. The decoupling theme that had been the mantra the past few years is thrown out the window. In a nutshell, the fiscal year closed out with more economic and financial uncertainty than most anyone other than those who lived through the Great Depression can remember.

Hopefully, the global concerted effort to infuse liquidity back into the market will work in the near future. The RSA was relatively inactive in that we did not add to equities, as the allocation as a percent of assets declined throughout the year. We do not foresee making any big shifts in the coming couple of quarters. With investor and consumer confidence at record lows, it could take some time for them to retest the waters. We will continue to demand the best execution from all of our financial counterparts and will strive to produce results that strengthen the Retirement Systems of Alabama.

#### **RSA Performance Summary**

As of September 30, 2008, aggregate defined benefit assets under management totaled \$26.672 billion. During fiscal year 2008, annualized total returns of the Teachers' Retirement System, Employees' Retirement System, and Judicial Retirement Fund were (15.36)%, (15.21)%, and (14.58)%, respectively.

#### **Equities**

As you would suspect, making a high nine days into the New Year is not a good thing. Basically from the beginning, fiscal year 2008 was on a slippery slope. The subprime debacle was beginning to manifest itself in ways even the bears had not foreseen. The ultimate result for the stock market was a slow bleed of negative earnings estimate revisions and multiple compressions. In between we saw a rescue of Bear Stearns, Lehman filing for bankruptcy, and the government basically nationalizing the largest insurance company in the U.S. We also learned that the various central banks of the world were more or less asleep at the switch. The less volatile world that we had grown accustomed to also dissolved, as evidenced by the Vix index. The Vix, which is a measure of short term volatility, started the New Year at 18 and closed out the year at 39. The volatility was not limited to just stocks, but nearly every other asset class, both hard and financial. In a nutshell, there was nowhere to hide, with the exception of cash and treasuries.

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For the year, the RSA domestic equity portfolios decreased -20.61%, -20.67%, and -21.20% for the TRS, ERS, and JRF funds, respectively. International equity returns fared worse, posting declines of -28.65% for TRS, -28.57% for ERS, and -26.84% for JRF. The combined total return for the overall equity portfolios were -22.77%, -22.69%, and -21.94% for the TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were 1.04%, 6.96%, and 5.52% for TRS, 1.03%, 6.94%, and 5.49% for ERS, and 0.53%, 5.70%, and 3.78% for JRF, respectively.

### **Fixed Income**

At the beginning of fiscal year 2008, the Federal Reserve had just lowered the discount rate to 5.75% after two failed attempts to calm financial markets by pumping in liquidity. The discount window is a backup facility for banks and depository institutions in the overnight funds market provided by the Federal Reserve. The move was executed in response to a global credit crunch that had temporarily caused overnight lending rates to soar. At its scheduled September meeting, policymakers lowered the federal funds rate by 50 basis points, stating that the “tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth”. With the economic climate getting worse and consumer confidence shaken, the Federal Reserve opted to lower short-term interest rates once again at the end of October bringing the bank lending rate to 4.50%. Thomas Hoenig, the Federal Reserve Bank of Kansas City President, cast the only dissenting vote.

During this time, the Treasury yield curve steepened dramatically as expectations began to rise regarding future rate cuts. While governing bodies felt the “expansion would likely slow in the near term”, the housing recession had yet to filter down into the employment numbers. The “flight to quality” was quite evident in November with Treasuries posting over a 3% return. The Fed lowered rates at the December FOMC meeting as concerns about credit availability and the sizable losses at financial institutions took center stage. Many of the issues concerning bank balance sheets and counterparty risk were continuing evidence of the deterioration of mortgage-related assets. The one bright spot was the ability to raise capital through preferred equity offerings and the infusion of cash from sovereign wealth funds.

As the new calendar year rolled in, economic activity began to sharply decelerate with a noticeable deterioration in the labor market. Headline inflation numbers had also ramped up considerably due to the rapid rise in energy prices. Things finally came to a head in mid January. Standard & Poor's placed Ambac, a municipal bond guarantor that also insures mortgage-related structured products, on negative watch. The prospect of downgrades and the deterioration in the condition of other municipal insurers shook the market as these actions could lead to massive write-downs at large financial institutions. Seeing international markets get bludgeoned and recognizing the crisis of confidence, the Federal Reserve lowered the federal funds rate by 75 basis points before the equity market opened. Policymakers wasted little time with a follow-up 50 basis point move at its scheduled January meeting one week later. Dallas Fed President Richard Fisher, the resident hawk of the committee, cast the only dissenting vote on concern that inflation expectations could become unanchored.

In March, the Federal Reserve announced an expansion to its securities lending program by introducing a new Term Securities Lending Facility (TSLF). The program actually gives non-bank dealers access to the same kind of collateral awarded to banks under the Term Auction Facility (TAF). In order to “promote liquidity” and “foster the functioning” of financial markets, the Fed is essentially taking the opposite side of the prevailing market trade at the moment, which is to sell mortgage-backed securities and buy Treasuries. Unfortunately for Bear Stearns, the auctions for the facility did not come in time. The firm which had been labeled as the originator of the sub-prime crisis last summer had run into major funding problems. As many broker-dealers use the repo market to finance its inventory and positions, no partners were willing to accept the counterparty risk associated with the firm. Trading partners began making margin calls, resulting in a dramatic loss of cash reserves. With no options available, the firm agreed to be purchased by JP Morgan with funding assistance provided by the Federal Reserve. The Fed also established the Primary Dealer Credit Facility (PDCF), which would allow discount window borrowing for primary dealers. Policymakers actually invoked a clause within the Federal Reserve Act to waive the prohibition on loans to non-bank institutions. At the end of March, short-term interest rates were lowered by 75 basis points to 2.25%, a 300 basis point reversal from six months earlier.

## RETIREMENT SYSTEMS OF ALABAMA

### *Investment Section*

#### Report on Investment Activity (Continued)

For the Fiscal Year Ended September 30, 2008

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In early spring, investors witnessed a gradual improvement in credit spreads, with the cost to insure a basket of investment-grade securities falling considerably. With the expectation that the Federal Reserve would be on hold after its 25 basis point cut in April, Treasury yields rose dramatically and the curve flattened. Fixed income investors began to focus on the prospect of higher inflation as oil and commodities touched new highs. However, sentiment quickly reversed course as the CRB (commodities index) fell approximately 13% in July, its worse showing in nearly three decades. This abrupt movement was in response to the slowdown in economic growth here and abroad.

September 2008 was one month that few will forget. In early September, Treasury Secretary Hank Paulson stepped in to prevent a collapse of Fannie Mae and Freddie Mac. The government seized control of the mortgage-finance companies wiping out preferred and common shareholders along the way. The two represent over 40% (\$5 trillion) of the mortgage market. Within a week, Lehman Brothers was forced to file for bankruptcy as a viable solution could not be reached to save the firm. The following day, the Federal Reserve left rates unchanged once again, however they did acknowledge that "strains in financial markets have increased significantly and labor markets have weakened further". The Fed was also forced to throw an \$85 billion lifeline to AIG, one of the world's largest insurers. As this all played out, global credit markets came to a halt. Corporate securities in the month of September underperformed their government-backed brethren by 700 basis points. Most of the decline in value came from the financial sector due to the situations involving Lehman and AIG. We feel that governing bodies will continue to create programs in order to free up liquidity to combat the hoarding of cash due to counterparty risks. We also believe that the Federal Reserve will likely continue down the path of reducing interest rates in the near term as consumer spending weakens and inflation fears subside.

For fiscal year 2008, the RSA purchased approximately \$2.1 billion in additional securities for the fixed income portfolio. As of September 30, 2008, the RSA's fixed income portfolio had a market value of \$10.6 billion, of which 6.3% was in money market securities. For the fiscal year, the total annual returns for the fixed income portfolios were -1.84% for the TRS, -2.01% for the ERS, and -1.39% for the JRF. The five-year annualized returns were 6.34% for the TRS, 6.33% for the ERS, and 5.16% for the JRF. The ten-year annualized returns were 6.02% for the TRS, 5.96% for the ERS, and 4.37% for the JRF.

Throughout the year, various attempts were made to rejuvenate the economy. Tax rebates were distributed, but increasing gas prices sucked up whatever money that wasn't used to pay down credit card debt. The Federal Reserve and the Treasury enacted a consortium of acronyms to halt the credit crisis and to provide liquidity to a market that had for all intensive purposes shut down. A crisis of confidence is a suitable description of how investors and consumers finished out the year. No matter what actions were taken to rebuild confidence, the glass was seen as half empty.

The above was applicable for the Retirement Systems as well. There was very little change to the equity portfolio in the 12 months ended September 30. As the uncertainty in the economy and markets continued to grow, the RSA made no allocation shift toward equities. As a result, the weighting of stocks as a percent of the overall funds shrunk 7% during the fiscal year.

In review, the RSA equity allocation began the year at roughly 63%, and closed out fiscal 2008 at 56% on average across the three funds. Domestic equities account for 42% of the fund, and international equities are now 14% of the total. For the first time in three years, small-cap stocks outperformed large-caps by a wide margin. The S & P 500 index was down -21.98%, the S & P 400 Midcap index was down -16.68%, and the S & P Smallcap 600 index was down -13.83%. The MSCI EAFE index was the laggard, down -30.50% for the twelve month period.

Sincerely,



Marc Green  
Director of Investments

# RETIREMENT SYSTEMS OF ALABAMA

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## *Investment Section*

### Investment Policies and Procedures

For the Fiscal Year Ended September 30, 2008

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#### **I. Board Objectives**

The Boards of Control, as Trustees of the Teachers' Retirement System and Employees' Retirement System (Systems), have full power, through each System's secretary-treasurer, to invest and reinvest System funds in accordance with the Prudent Man Rule: "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." Other funds currently and hereafter under the management of the Systems will be governed by this Investment Policy Statement within each System's limitations and/or by other applicable legislated restrictions.

It is the objective of the Boards that funds be invested in such a manner as to maximize the total return of each System within prudent risk parameters. Also, the Systems recognize that a stronger Alabama equates to a stronger Retirement System, and as such, investments in Alabama businesses are encouraged to the extent the investment meets the criteria delineated by this policy statement.

The long term investment performance expectations of the Systems are to achieve a return on marketable securities in excess of the actuarial investment assumption and to exceed the rate of inflation (as measured by the CPI) by 3% through investments in a broadly diversified portfolio. The performance evaluation of each System will be submitted to the respective Board on a semi-annual basis.

#### **II. Asset Allocation**

The most important aspect of any investment strategy is the decision regarding allocation of investments among the various asset classes. The purpose of formulating asset allocation guidelines is to maximize investment returns within the standards of prudence established for the whole portfolio. Accordingly, the asset allocation decisions will be predicated on the following factors:

1. The actuarial projected liability stream of benefits and their cost,
2. The perception of the prospective risks and returns of eligible asset classes, and
3. Judgments regarding future economic and financial conditions.

The maximum permissible allocation of assets in the Systems to each eligible asset class is expressed below:

##### **A. Domestic Fixed Income**

The domestic fixed income portfolio of each System may consist of any rated or non-rated debt security including, but not limited to, the following: U.S. Treasury issues, agency issues, mortgage-backed securities, corporate bonds, and privately placed debt securities. This area of investments may not exceed 50% of the market value of the aggregate portfolio of each System.

##### **B. International Fixed Income**

The international fixed income asset class may be used to provide diversification for each System and may consist of U.S. dollar denominated or foreign currency denominated fixed income obligations of sovereign countries with a rating of at least A by one of the principal rating agencies at the time of purchase or acquisition, except that up to 2 percent of the market value of each System's total portfolio may be invested in the obligations of sovereign countries with a rating of BBB or BAA by one of such agencies at the time of purchase. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international fixed income obligations when it is considered appropriate. The market value of this asset may not exceed 10% of the market value of each System's total portfolio.

## RETIREMENT SYSTEMS OF ALABAMA

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### *Investment Section*

#### Investment Policies and Procedures (Continued)

For the Fiscal Year Ended September 30, 2008

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C. Domestic Equity

The domestic equity portfolio of each System may consist of both actively and passively managed equity securities. Also, covered call options may be utilized in order to add incremental value to each System's equity portfolio and may be written and repurchased as market conditions warrant. The asset class may not exceed 65% of the market value of each System's aggregate portfolio.

D. International Equity

The international equity asset class may be used to provide diversification for the Systems and may consist of both actively and passively managed international equity securities. In order to be eligible for purchase by the Systems, an international equity security must be issued by a company incorporated in a country whose debt securities are eligible for investment under Section B above, and the market value of the aggregate outstanding equity of the issuing company must be at least \$100 million. Furthermore, each System may not purchase or hold more than 5 percent of any class of the outstanding stock of a company. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international equity securities when it is considered appropriate. The aggregate market value of international equities may not exceed 25% of the aggregate market value of each System's total portfolio.

E. Real Estate

The real estate portfolio of each System may consist of office, retail, industrial, commercial, and residential housing projects. The suggested range may not exceed 15% of the book value of each System's aggregate portfolio.

F. Alternative Investments

Alternative investments may consist of, but are not limited to, mezzanine financing, LBO's, venture capital, limited partnerships, futures, commodities, and derivative investments. The asset class may not exceed 10% of the book value of each System's aggregate portfolio.

G. Short-term Investments

Short-term investments may consist of money allocated to commercial paper, rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. Treasury securities and other money market investments. The primary objective of short-term investments is to provide highly liquid, low risk methods of return on funds, which have not been committed to the other aforementioned asset classes. The asset class may not exceed 20% of the market value of each System's aggregate portfolio.

Asset allocation is a dynamic process, and as such, the allocation decision should be revisited as market conditions change. In order to recognize this dynamism, the allocation targets within the recommended ranges of each asset class for the prospective quarter should be included in the quarterly strategy report.

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### III. Procedures

1. The investment advisor will work with the staff to develop a quarterly strategy for investments, which will be disseminated to the Boards, as it is prepared each quarter.
2. The Investment Committee of each System shall approve all investments made within the prescribed investment policy. These Investment Committees, in their approval, are considered to be signing for the respective Board of Control. If any purchase or sale is questioned by a member of the respective Investment Committee as to whether it is within given Board policy, the Board shall decide and no purchase or sale shall take place until all parties are in clear agreement that said action is or is not covered by policy.
3. Each week the secretary-treasurer of each System will send to the investment advisor the list of actual activities for written confirmation, which will then be forwarded to the respective System's Board of Control members upon receipt.
4. The staff members of the investment advisor will meet at least quarterly with members of the RSA staff and interested Boards of Control members to cover subjects of mutual interest.
5. All investment security purchases will be documented with an individual worksheet setting out the reason for the purchase, rating, market history and other general data pertinent to the decision making process.
6. An annual survey will be made of all fixed income investments held with emphasis on credit quality. A holding that has been downgraded in rating will be examined as to the reason for the downgrade and a determination should be made as to whether the security should remain in the portfolio.
7. The rules of the Securities Exchange Commission, the general policies of the Boards of Control, and the Alabama Ethics Commission shall govern the ethical conduct of employees. The RSA staff will provide the Alabama Ethics Commission with a quarterly report of all purchases and sales of any and all securities for personal accounts occurring within each reported quarter. The staff will abide by the Alabama Ethics Commission Advisory Opinion No. 673.

# RETIREMENT SYSTEMS OF ALABAMA

## Investment Section

### Schedule of Investment Performance

For the Fiscal Year Ended September 30, 2008

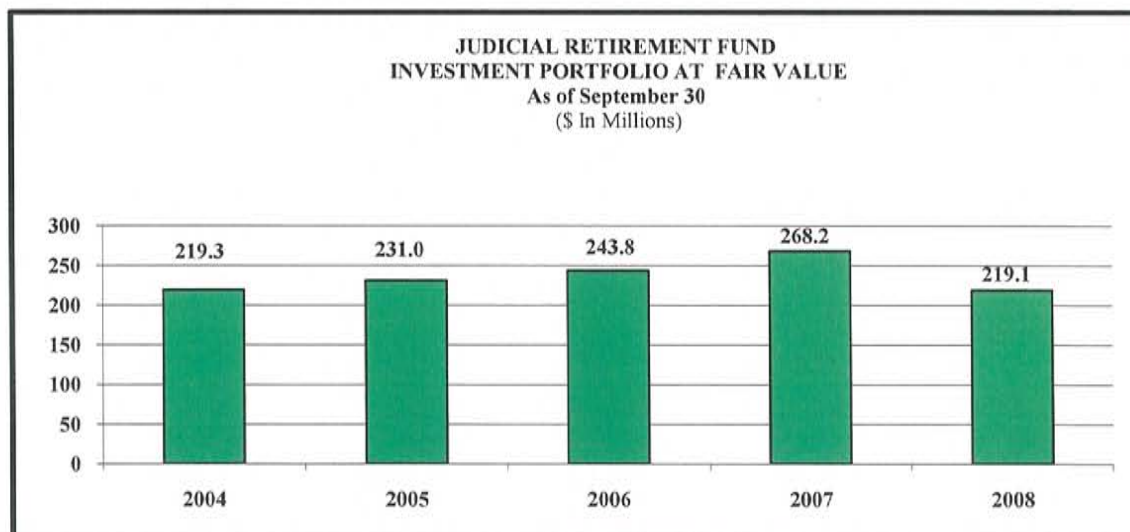
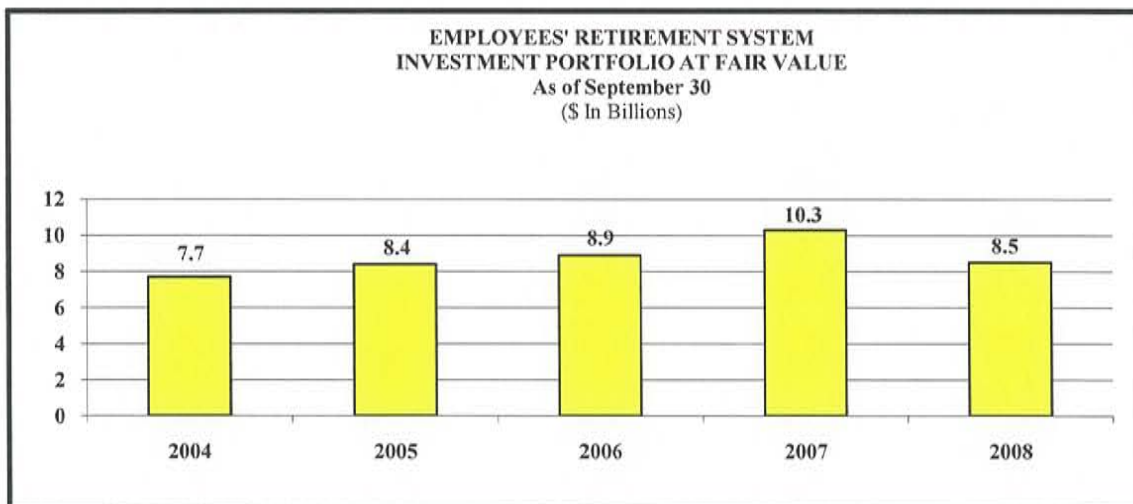
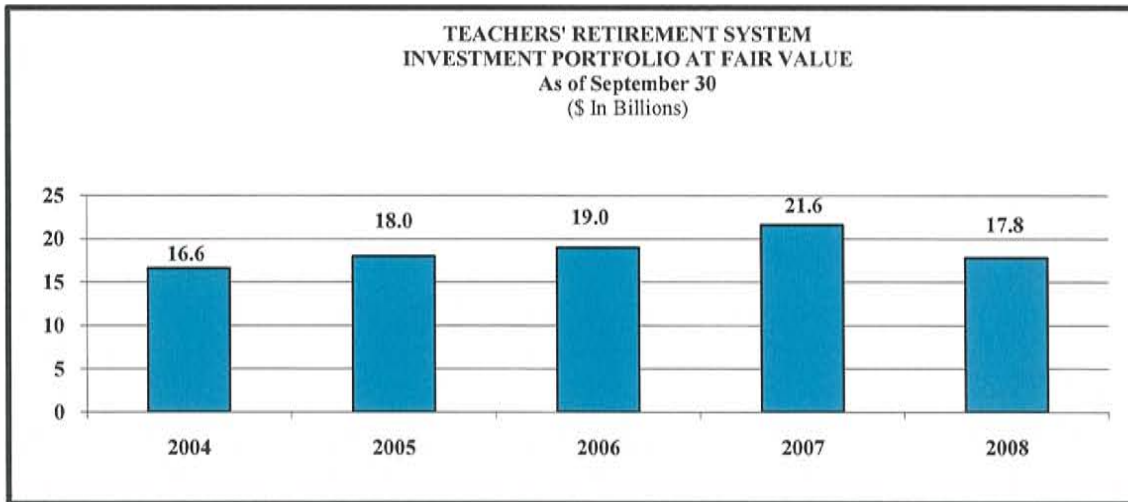
	1 Year	Annualized		
		Last 3 Years	Last 5 Years	Last 10 Years
<b>Total Portfolio</b>				
TRS	-15.36%	2.66%	5.91%	5.20%
ERS	-15.21%	2.71%	5.76%	5.02%
JRF	-14.58%	2.13%	5.44%	4.08%
<b>Total Domestic Equity</b>				
TRS	-20.61%	0.69%	5.98%	4.29%
ERS	-20.67%	0.68%	5.99%	4.32%
JRF	-21.20%	0.56%	5.72%	3.79%
<i>Domestic Equity Benchmarks:</i>				
S&P 500	-21.98%	0.22%	5.17%	3.06%
Dow Jones Industrial Average	-19.84%	3.33%	5.60%	5.46%
S&P MidCap 400	-16.68%	1.78%	8.65%	10.30%
S & P 600 Smallcap	-13.83%	2.00%	9.89%	10.05%
<b>Total International Equity</b>				
TRS	-28.65%	2.22%	10.53%	5.78%
ERS	-28.57%	2.25%	10.52%	5.81%
JRF	-26.84%	n/a	n/a	n/a
<i>International Equity Benchmarks:</i>				
Morgan Stanley EAFE (Unhedged)	-30.50%	1.12%	9.69%	5.02%
<b>Total Fixed Income and Alternatives</b>				
TRS	-3.23%	4.94%	4.98%	5.34%
ERS	-3.74%	5.07%	4.96%	5.28%
JRF	-0.04%	4.69%	5.20%	4.39%
<i>Fixed Income Benchmarks:</i>				
Citigroup Big	4.48%	4.48%	4.03%	5.32%
Lehman Bros. Aggregate	3.65%	4.15%	3.78%	5.20%

## RETIREMENT SYSTEMS OF ALABAMA

### *Investment Section*

#### Investment Portfolio at Fair Value

#### Five-Year Comparison

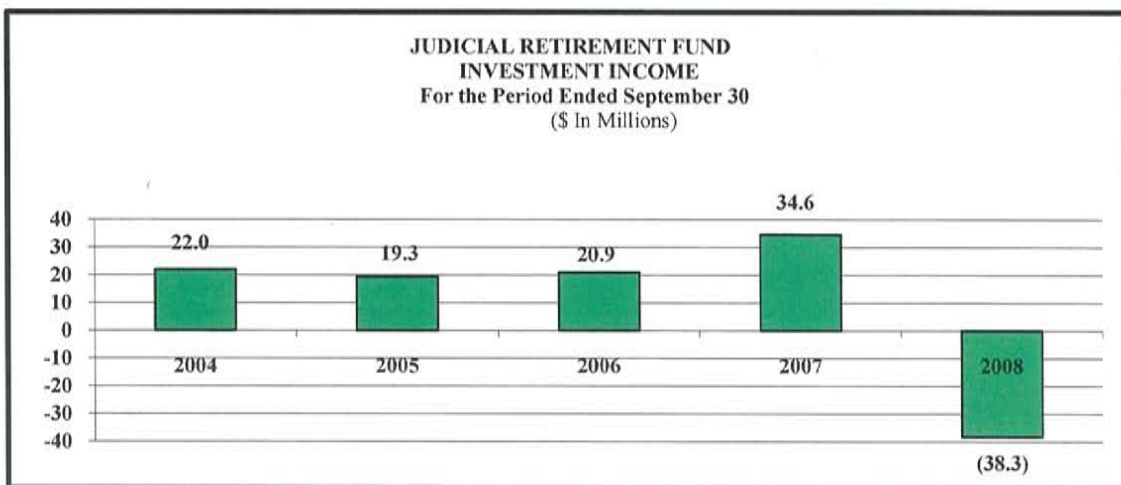
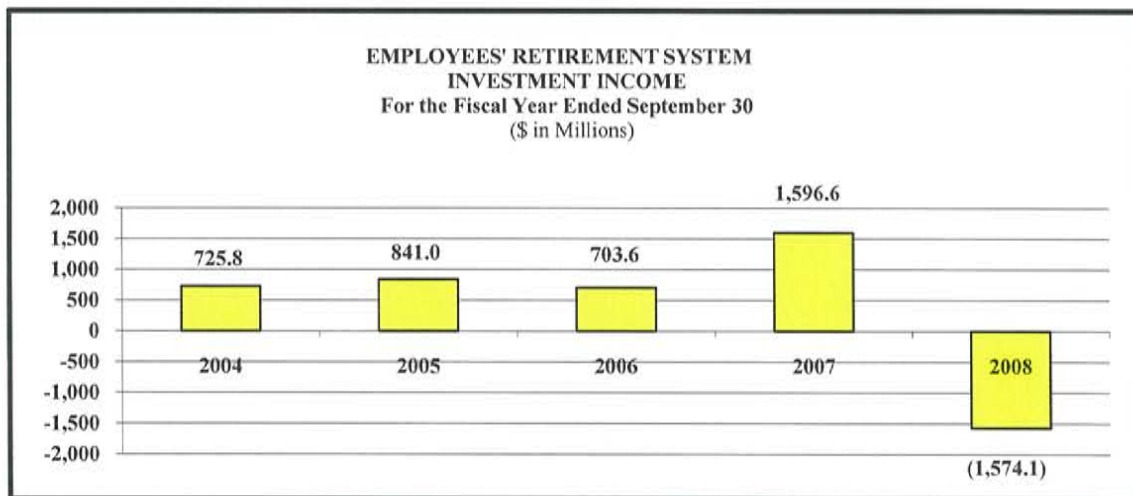
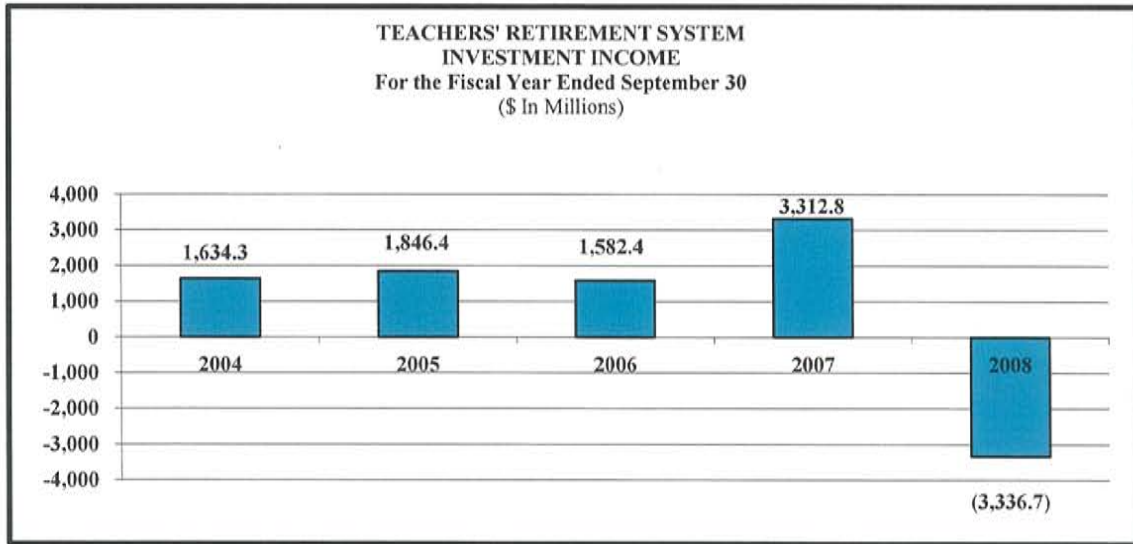


## RETIREMENT SYSTEMS OF ALABAMA

### Investment Section

#### Investment Income

#### Five-Year Comparison

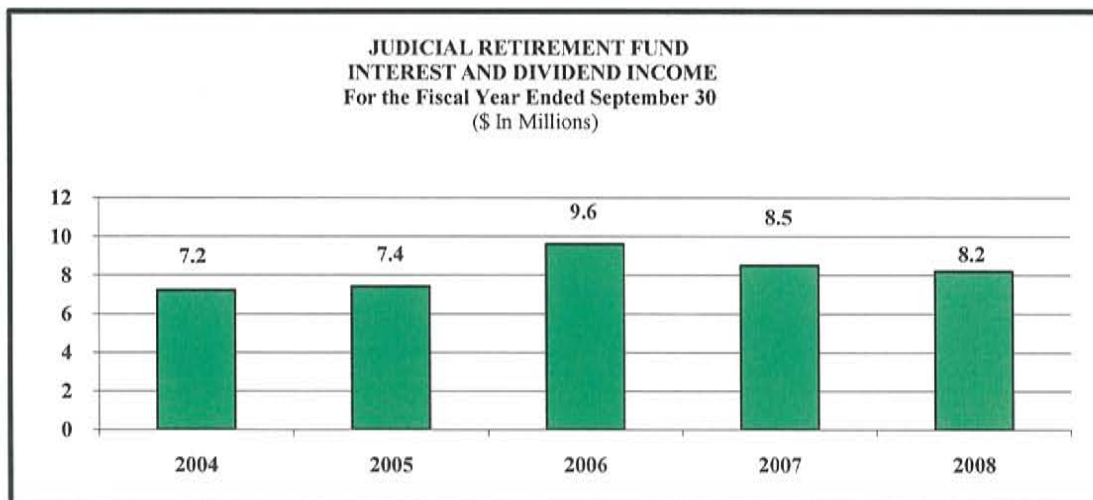
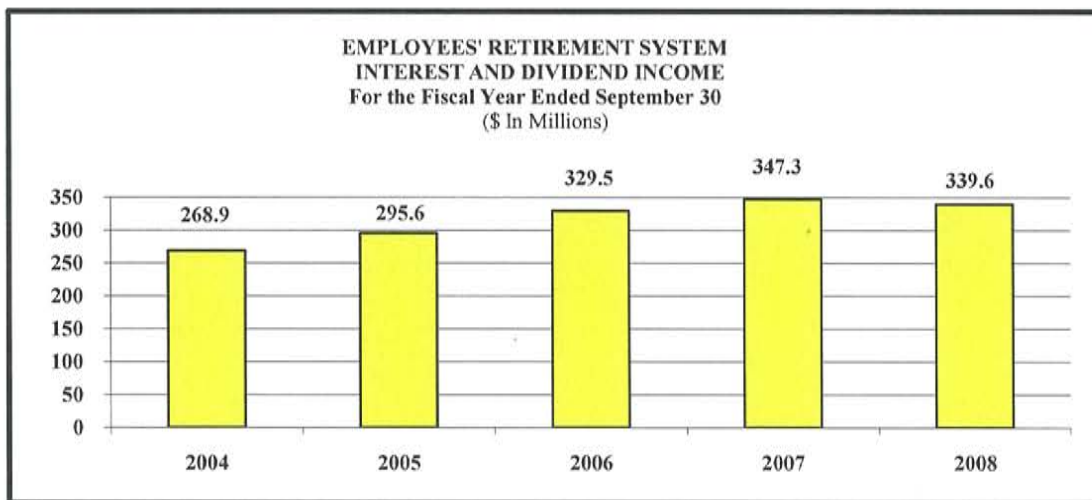
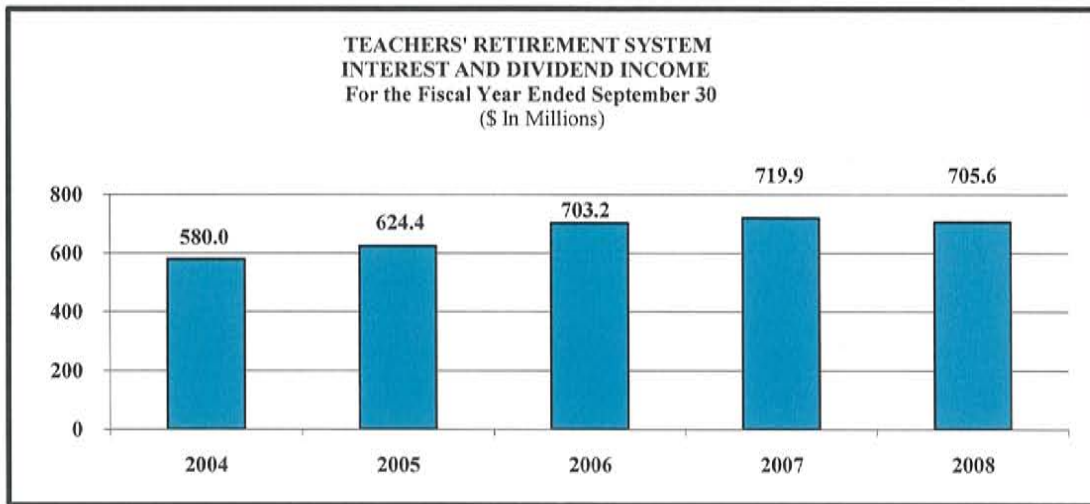


## RETIREMENT SYSTEMS OF ALABAMA

### *Investment Section*

#### Interest and Dividends

#### Five-Year Comparison

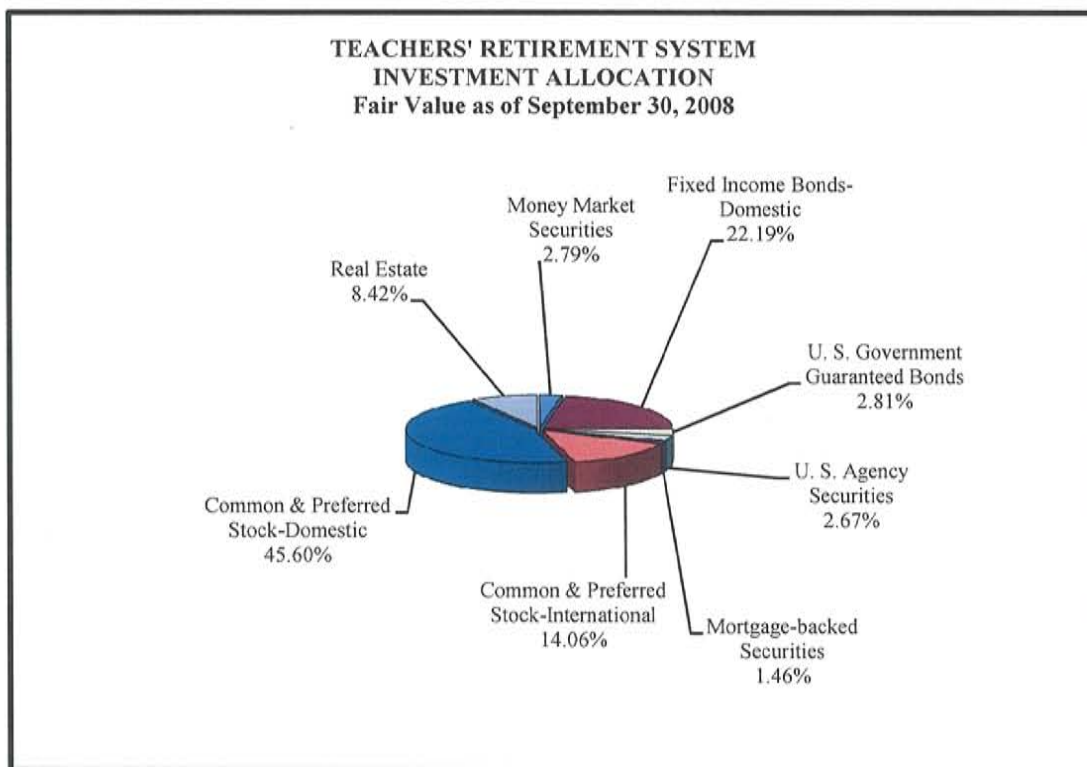


# RETIREMENT SYSTEMS OF ALABAMA

## Investment Section

### Teachers' Retirement System

#### Investment Allocation and Summary



### TEACHERS' RETIREMENT SYTEM INVESTMENT SUMMARY AT FAIR VALUE

As of September 30, 2008

(\$ In Thousands)

	Fair Value	% of Fair Value
Money Market Securities and Mutual Funds	\$ 495,316	2.79
U.S. Government Guaranteed	499,218	2.81
U.S. Agency Securities	474,941	2.67
Mortgage-backed Securities	259,066	1.46
Fixed Income Bonds		
Domestic	3,940,523	22.19
Common and Preferred Stocks		
Domestic	8,096,041	45.60
International	2,496,175	14.06
Real Estate	1,494,190	8.42
<b>Total Investments</b>	<b>\$ 17,755,470</b>	<b>100.00</b>

## RETIREMENT SYSTEMS OF ALABAMA

### *Investment Section*

#### Teachers' Retirement System

#### Largest Stock and Bond Holdings

### TEACHERS' RETIREMENT SYSTEM

#### LARGEST STOCK HOLDINGS

September 30, 2008

(Amounts In Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	391	Goldman Sachs Small Cap Equity Linked Notes	\$ 390,672
2)	283	Raycom Media	276,880
3)	2,949	Exxon Mobil	228,991
4)	413	Community News	220,301
5)	207	Goldman Sachs S&P 500 Equity Linked Notes	186,362
6)	172	Credit Suisse Medium Term Equity Linked Notes	148,780
7)	5,527	General Electric	140,938
8)	4,627	Microsoft	123,484
9)	1,730	Proctor and Gamble	120,534
10)	1,704	Johnson & Johnson	118,022

### TEACHERS' RETIREMENT SYSTEM

#### LARGEST BOND HOLDINGS

September 30, 2008

(\$ in Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$1,631,136	Raycom Media 6.75% due 12/15/16	\$ 1,597,684
2)	760,095	Community News 6.75% due 1/31/17	405,171
3)	178,315	National Alabama LP 8.5% due 10/9/10	178,315
4)	124,894	U.S. Treasury 4.25% due 8/15/15	132,098
5)	100,100	Alabama River Group 8.625% due 10/8/13	100,736
6)	83,366	U.S. Treasury 4.00% due 2/15/15	87,477
7)	64,456	U.S. Treasury 4.125% due 5/5/15	67,953
8)	51,525	U.S. Treasury 4.75% due 5/31/12	55,363
9)	49,943	U.S. Treasury 2.125 due 4/3/10	50,181
10)	45,199	Point Clear Partners LLC 8.50% due 12/12/15	45,199

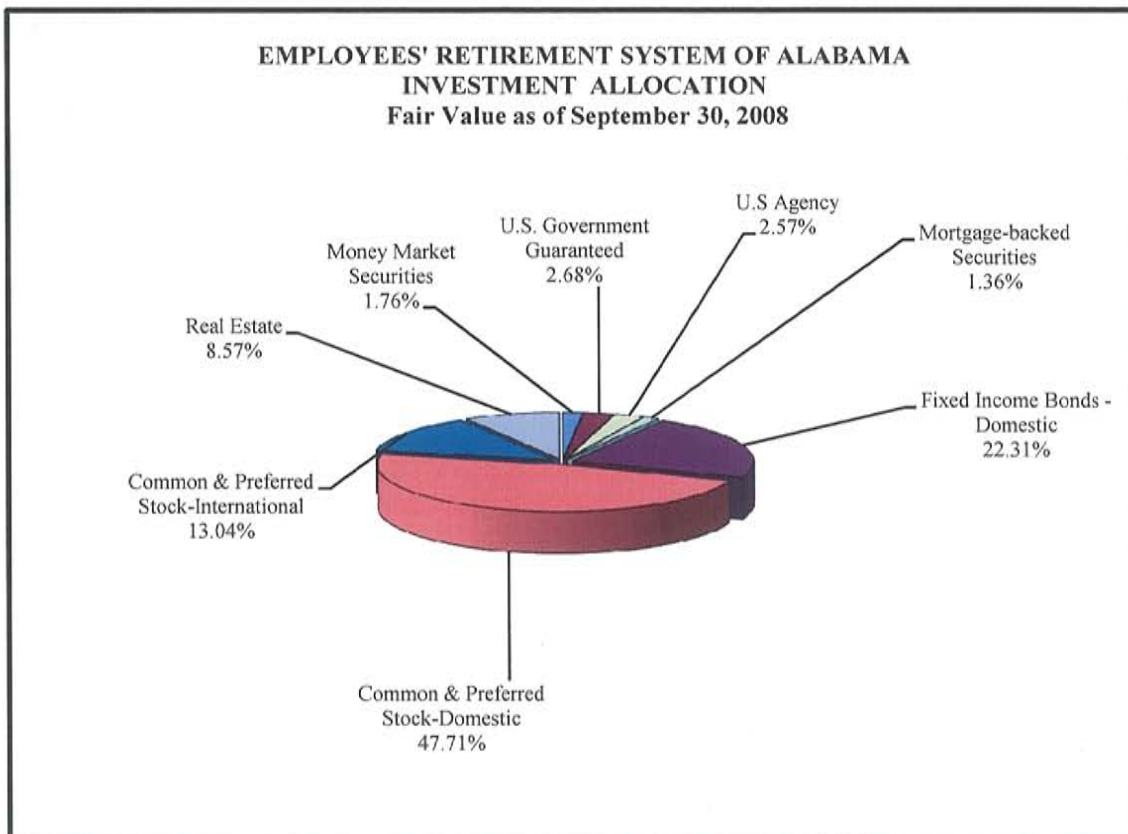
A complete list of portfolio holdings is available upon request.

## RETIREMENT SYSTEMS OF ALABAMA

### Investment Section

#### Employees' Retirement System

#### Investment Allocation and Summary



### EMPLOYEES' RETIREMENT SYSTEM INVESTMENT SUMMARY AT FAIR VALUE

As of September 30, 2008

(\$ In Thousands)

	Fair Value	% of Fair Value
Money Market Securities and Mutual Funds	\$ 148,872	1.76
U.S. Government Guaranteed	227,454	2.68
U.S. Agency Securities	217,774	2.57
Mortgage-backed Securities	115,366	1.36
Fixed Income Bonds		
Domestic	1,890,360	22.31
Common and Preferred Stocks		
Domestic	4,042,346	47.71
International	1,104,797	13.04
Real Estate	726,105	8.57
<b>Total Investments</b>	<b>\$ 8,473,074</b>	<b>100.00</b>

## RETIREMENT SYSTEMS OF ALABAMA

### *Investment Section*

#### Employees' Retirement System

#### Largest Stock and Bond Holdings

### EMPLOYEES' RETIREMENT SYSTEM

#### LARGEST STOCK HOLDINGS

September 30, 2008

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	283	Raycom Media	\$ 276,880
2)	161	Goldman Sachs Small Cap Equity Linked Notes	160,667
3)	253	Community News	134,922
4)	1,408	Exxon Mobil	109,373
5)	93	Goldman Sachs S&P 500 Equity Linked Notes	83,728
6)	78	Credit Suisse Medium Term Equity Linked Notes	67,470
7)	2,641	General Electric	67,337
8)	2,303	ACON Signal	66,858
9)	2,222	Microsoft	59,311
10)	828	Proctor and Gamble	67,699

### EMPLOYEES' RETIREMENT SYSTEM

#### LARGEST BOND HOLDINGS

September 30, 2008

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 810,476	Raycom Media 6.75% due 12/15/16	\$ 793,854
2)	384,386	Community News 6.75% due 1/31/17	204,898
3)	87,827	National Alabama LP	87,827
4)	59,729	U.S. Treasury 4.25% due 8/15/15	63,174
5)	42,900	Alabama River Group 8.625% due 10/8/13	43,172
6)	36,594	U.S. Treasury 4.00% due 2/15/15	38,398
7)	29,702	U.S. Treasury 4.125% due 5/15/15	31,313
8)	23,837	U.S. Treasury 4.75% due 5/31/12	25,613
9)	23,288	U.S. Treasury 2.125% due 4/30/10	23,399
10)	22,262	Point Clear Partners LLC	22,262

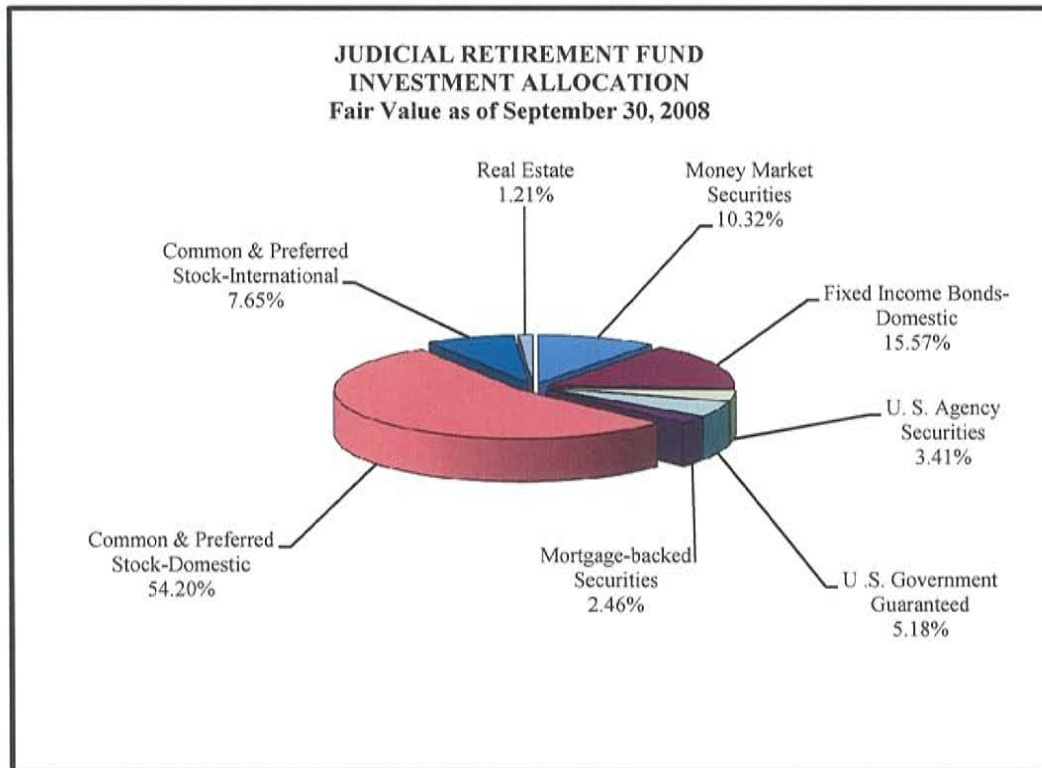
A complete list of portfolio holdings is available upon request.

## RETIREMENT SYSTEMS OF ALABAMA

### Investment Section

#### Judicial Retirement Fund

#### Investment Allocation and Summary



**JUDICIAL RETIREMENT FUND  
INVESTMENT SUMMARY AT FAIR VALUE  
As of September 30, 2008  
(\$ In Thousands)**

	Fair Value	% of Fair Value
Money Market Securities and Mutual Funds	\$ 22,615	10.32
U.S. Government Guaranteed	11,341	5.18
U.S. Agency Securities	7,476	3.41
Mortgage-backed Securities	5,385	2.46
Fixed Income Bonds, Domestic	34,102	15.57
Common and Preferred Stocks, Domestic	118,731	54.20
Common and Preferred Stocks, International	16,761	7.65
Real Estate	2,647	1.21
<b>Total Investments</b>	<b>\$ 219,058</b>	<b>100.00</b>

## RETIREMENT SYSTEMS OF ALABAMA

### *Investment Section*

#### Judicial Retirement Fund

#### Largest Stock and Bond Holdings

### JUDICIAL RETIREMENT FUND LARGEST STOCK HOLDINGS

September 30, 2008

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	55	Exxon Mobil	\$ 4,258
2)	4	Goldman Sachs Small Cap Equity Linked Notes	3,519
3)	103	General Electric	2,616
4)	32	Proctor and Gamble	2,202
5)	82	Microsoft	2,196
6)	29	Johnson & Johnson	2,015
7)	38	JP Morgan Chase & Co	1,776
8)	21	Chevron	1,758
9)	62	AT&T	1,730
10)	14	IBM	1,662

### JUDICIAL RETIREMENT FUND LARGEST BOND HOLDINGS

September 30, 2008

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 3,082	U.S. Treasury 4.25% due 8/15/15	\$ 3,260
2)	4,988	Community News	2,625
3)	2,158	U.S. Treasury 4.00% due 2/15/15	2,264
4)	2,000	LMB Funding 8.05% due 12/21/13	1,898
5)	1,412	Federal National Mortgage Association 5.625% due 5/19/11	1,433
6)	1,225	U.S. Treasury 4.75% due 5/31/12	1,316
7)	1,588	General Electric Capital Corporation 5.55% due 5/4/20	1,289
8)	1,200	U.S. Treasury 4.125% due 5/15/15	1,265
9)	1,219	U.S. Treasury 2.125% due 2010	1,225
10)	1,295	American Airlines 11.00% due 5/7/13	1,007

A complete list of portfolio holdings is available upon request.

# RETIREMENT SYSTEMS OF ALABAMA

## Investment Section

### Broker Commissions Paid

For the Fiscal Year Ended September 30, 2008

	Stock		Fixed		Total
	Commissions	# of	Commissions	Securities	Commissions
	Per Share	Shares	(000's)	Commissions	(000's)
		(000's)		(000's)	
Banc of America	\$ -		\$ -	\$ 186	186
Bear Stearns & Co.	0.0480	5,102	245	117	362
Benchmark	0.0490	102	5	-	5
Bernstein	0.0267	35,832	955	-	955
Centennial	0.0500	400	20	-	20
Citigroup	0.0373	23,527	878	304	1,182
Credit Suisse First Boston Corp.	0.0372	12,217	454	116	570
Deutsche Bank	-	-	-	90	90
Empirical Research	0.0501	3,695	185	-	185
First Discount	0.0500	320	16	-	16
Gardner Rich	0.0494	385	19	-	19
Goldman Sachs & Co.	0.0063	40,121	254	141	395
Issuer Designated	-	-	-	239	239
ISI	0.0500	7,795	390	-	390
Jeffries	0.0469	5,440	255	-	255
JP Morgan Chase	0.0390	22,766	889	30	919
Keefe Bruyette	0.0499	2,848	142	-	142
KeybanC Capital Markets	0.0508	551	28	38	66
Lazard Capital	0.0500	720	36	-	36
Lehman Brothers, Inc.	0.0460	17,376	799	446	1,245
Merrill Lynch, Pierce, Fenner & Smith	0.0435	19,227	836	309	1,145
Morgan Keegan	0.0496	1,170	58	1	59
Morgan Stanley Dean Witter	0.0459	22,160	1,017	213	1,230
NBC	0.0500	1,200	60	-	60
Oppenheimer	0.0471	6,132	289	-	289
Raymond James	0.0504	1,150	58	237	295
Register/Corts-Register	0.0500	300	15	-	15
Sandler O'Neil	0.0499	4,625	231	-	231
Securities Capital	0.0505	475	24	-	24
Southcoast	0.0496	3,283	163	-	163
Southwest	0.0500	300	15	-	15
Sterne Agee	0.0502	2,451	123	2	125
UBS Warburg	0.0494	809	40	67	107
Wachovia	0.0475	6,772	322	-	322
<b>Totals</b>		<b>249,251</b>	<b>\$ 8,821</b>	<b>\$ 2,536</b>	<b>\$ 11,357</b>

Average Commission Per Share of Stock = \$ 0.0354